

CRAIN'S

DETROIT BUSINESS

Michigan's experience with Obamacare could be model for nation, UM health researcher says

By Jay Greene
February 10, 2017

A study of Affordable Care Act competitiveness in Michigan

Michigan did well compared with four other states evaluated in a study released Thursday that looked at how well they have fared the past four years in rolling out and managing individual health insurance market exchanges under the Affordable Care Act.

The 125-page report, which was released by the Center for Health Policy at the Brookings Institute, is timely because of discussions by Republicans in Congress and President Donald Trump about repealing the Affordable Care Act, or Obamacare.

Health insurance marketplaces operated in Michigan, California, Florida, Texas and North Carolina were evaluated in the report, a "Five-State Study of ACA Marketplace Competition." It was conducted by the ACA Network, a joint project of Brookings and the Rockefeller Institute of Government.

"We picked these states because we thought they were very different ... and could serve as a road map as we look at repeal, replace and repair" of Obamacare, said Michael Morrissey, professor and department head of health policy and management at Texas A&M University.

In Michigan, Republican Gov. Rick Snyder and a Republican-dominated state Legislature took on health care reform in 2010 as primarily

an economic issue, said Marianne Udow-Phillips, executive director for the Ann Arbor-based Center for Healthcare Research & Transformation.

Udow-Phillips said Michigan can be viewed as a model for how Obamacare can work. Since 2014, Medicaid expansion under the health reform act added nearly 650,000 people and the insurance exchange added another 350,000 commercially insured people. The majority were formerly uninsured, which helped decrease the state's uninsured numbers to 6 percent in 2015 from 12 percent in 2009.

"We approached the implementation of ACA pragmatically. We want to make it work," Udow-Phillips said. "Gov. Snyder is a businessman and he got the economics of it. He said, if it were up to him, he would create the exchange independent of the federal law."

Overall, Morrissey said the five-state study found generally that health insurance markets are dynamically local, that rising prices in 2017 were caused by higher-than-expected claims costs in 2016, that insurers shifted dramatically to narrower provider networks and that hospital and physician competition is essential to a robust and competitive insurer market.

"Competition differs from urban and rural settings and there is a difference between urban areas," said Morrissey, who has studied health insurance markets for more than 20 years. "The nature of competition in San Francisco is less intense than Los Angeles. Detroit is more competitive than Flint."

Morrisey said there can only be price competition when health insurers have enough networks of hospitals and doctors to negotiate for managed care contracts. Hospitals, doctors and other providers will lower their prices and improve quality based on competition and need for contracts, he said.

"If you can't establish a network, you can't lower prices and improve quality, he said.

Besides Michigan, California has had good experience the past four years in encouraging competition and holding down premium increases below national averages, the study said. California's uninsured rate dropped to 8 percent from 17 percent the past five years.

"California and Michigan appear to have had success in nurturing insurer competition, in at least the urban areas of their states," the report said.

In Michigan, Udow-Phillips said a wide coalition of small business groups, health plans, providers and advocacy groups joined to support Healthy Michigan Medicaid expansion and the insurance marketplace.

"As a result, we have a fair amount of competition, even today," she said. "In 2014, we had 13 insurers. Today we have 10. ... We started with 70 plan options. Now we have 167 plan options."

Competition is greater in lower Michigan, especially in urban areas like Detroit. The Upper Peninsula has only two payers competing, Blue Cross Blue Shield of Michigan and its HMO affiliate, Blue Care Network. "Rates are higher in the U.P., but they have choices in plans," she said.

Despite an average 16.7 percent rate increase for 2017, Udow-Phillips said satisfaction scores in the individual market are higher than 2009, before Obamacare went into effect. "They understood how bad the (individual) market was before the ACA," she said.

Udow-Phillips said she has concerns about 2018, especially in the light of talk to repeal and replace Obamacare. "Rates are underpriced now (for 2017) based on utilization" trends," she said.

The study found that health insurers had little information on how to price products in the individual market, especially in the first two years, Morrisey said.

"Many were very timid about entering the market. Premiums drove enrollment" the first two years, he said. "2016 came along and that data was scary. High utilization across the board, adverse selection with some national insurers withdrawing from local markets."

Health insurers have asked the Trump Administration to make some changes that they hope will stabilize the market for 2018, Morrisey said.

"There is an open question about how special late enrollment provisions will affect claims," said Morrisey, explaining that some people are allowed to purchase health insurance after traditional open enrollment closes.

"Health insurers say (allowing) special enrollment is very expensive," he said. "There may be changes going forward."

Another problem the report noted were inadequate provisions in Obamacare intended to protect health insurers from absorbing unforeseen losses due to high-cost patients.

Morrisey said the so-called "risk corridor" payments that transferred premium dollars from insurers with lower utilization experience to those with greater utilization did not work as planned for a number of reasons. As a result, the federal government owes approximately \$8.3 billion to health insurers, debts that many insurers have already written off.

The inability for the federal government to fund risk-corridor payments is another reason why health insurance premiums have spiked this year, far above rate increases the previous three years in the individual market, Morrisey said.

"This suggests that if society does not want to allow insurers to charge differential premiums for people with differing levels of anticipated utilization, then some other mechanisms such as subsidized reinsurance and a more generous risk-adjustment mechanism are necessary to compensate insurers for the cost of high utilizers," said the report.

Despite the average 16.7 percent premium increase in Michigan, before federal subsidies, the average silver plan premium, which most people purchase, rose only 5 percent this year.

Some 87 percent of Michigan's exchange enrollees received premium tax credits that lowered their overall premiums.

As part of the Brookings report, Udow-Phillips and her colleagues interviewed executives at health insurance and provider groups. They documented the following comments:

- Some Michigan health insurers premium increases were corrections for previous underpricing of their products in 2014 and 2015. Some insurers intentionally priced insurance products artificially low to attract and retain larger numbers of enrollees. For example, the state's average premium increase in 2015 was 6.5 percent.
- However, some health insurers said the proposed 2017 rate increases represent the beginning of a multiyear correction for carriers based on their first three years' experience.
- For example, one executive said the newer exchange enrollees are "definitely higher risk and higher utilization" than anticipated, especially among the population that used special enrollment periods to sign up for coverage. "The pool is sicker than we anticipated."
- Costs also rose because emergency department utilization was "very significant."
- Rising pharmaceutical costs will be significant drivers of premium increases in the future.